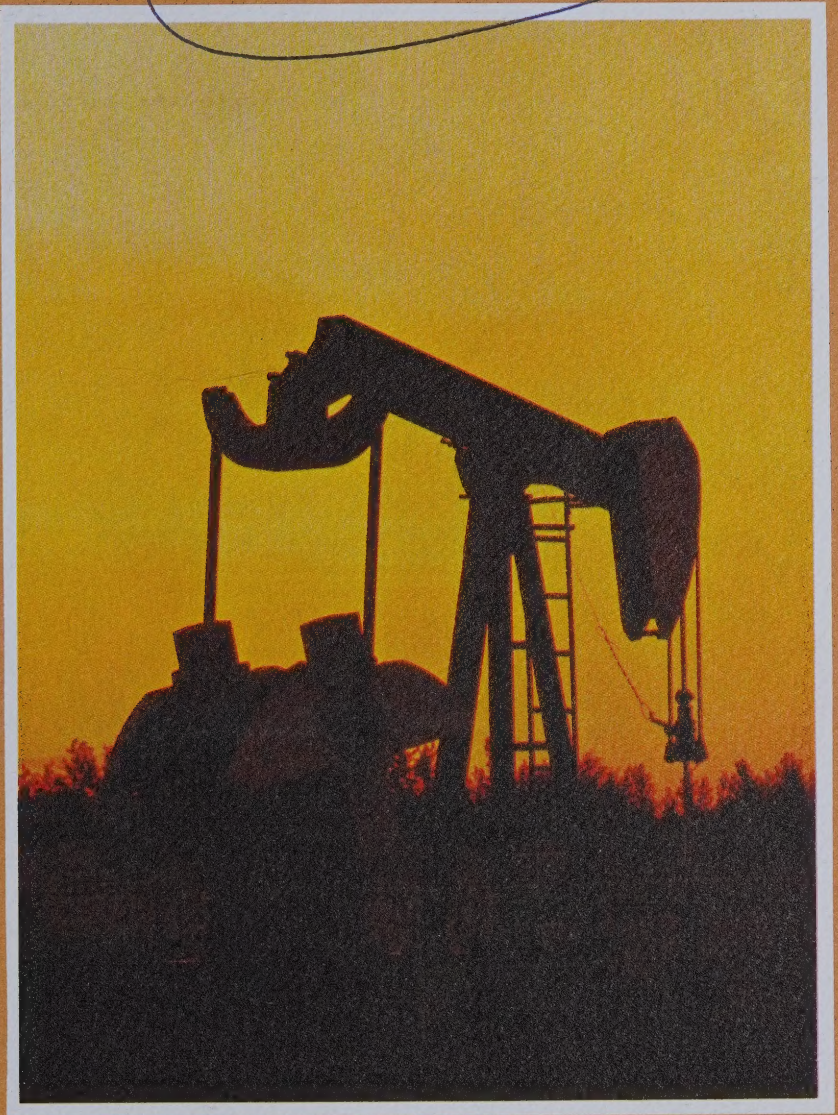


AR18

NUMAC OIL & GAS LTD
SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969



BOARD OF DIRECTORS

Ralph A. Bard Jr.	Executive	Chicago, Illinois
Lawrence L. Bell	Partner Richardson Securities of Canada	Toronto, Ontario
Hadley Case	President Felmont Oil Corporation	New York, N.Y.
James F. Jungé	President The Pitcairn Company	Jenkintown, Penn.
Alexander N. MacIver	Barrister and Solicitor	Edmonton, Alberta
William S. McGregor	President Numac Oil & Gas Ltd.	Edmonton, Alberta
Marshal Stearns	President T. A. Richardson & Co. Limited	Toronto, Ontario
Lloyd F. Stevens	Executive Vice-President Allpak Products Limited	London, Ontario

OFFICERS

President and Managing Director	William S. McGregor
Vice-President, Engineering	Donald F. Baker
Vice-President, Exploration	Gunnar Haugrud
Secretary and Vice-President, Lands and Contracts	C. R. S. Montgomery
Treasurer	John T. Ferguson
Assistant Secretary	Alexander N. MacIver

HEAD OFFICE	11055 - 107th Street, Edmonton, Alberta
REGISTRAR AND TRANSFER AGENT	The Royal Trust Company Edmonton, Montreal, Toronto
AUDITORS	Winspear, Higgins, Stevenson and Doane Edmonton, Alberta
SOLICITORS	Jackson, Arlette, MacIver and Chillack Edmonton, Alberta
LISTING	The Toronto Stock Exchange
ANNUAL MEETING	9:00 a.m., June 26, 1970 Macdonald Hotel, Edmonton

NUMAC OIL & GAS LTD.
11055 - 107TH STREET

MAILING ADDRESS:
P.O. BOX 68, EDMONTON 15, ALBERTA
PH. 422-6188 - 422-1981 (AREA 403)

March 24, 1970

Financial Editor
The Globe and Mail
140 King Street West
TORONTO, Ontario

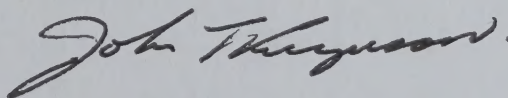
Dear Financial Editor:

Our Annual Report for 1969 was released today and I thought you would like a copy immediately.

We are extremely pleased with the operating results which are highlighted on the first page and detailed later in the report. You may find the section and map of the Mackenzie Delta of interest since your paper has had numerous excellent articles on the area recently.

The current operating period should result in another outstanding year and if you require or desire any additional information about Numac, we would be glad to be of help.

Yours very truly,



John T. Ferguson
Treasurer

JTF:jw

CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS
FOR THE SIX MONTHS ENDED JUNE 30, 1969
(with comparative figures for 1968)

Interim
Report
to
Shareholders
SIX MONTHS ENDED
JUNE 30, 1969

	1969	1968
SOURCE OF FUNDS:		
Profit before non-cash items	\$ 567,066	\$ 238,126
Proceeds from issue of shares	3,200	2,133,200
Proceeds from sale of interest in rights and leases	95,000	316,464
Minority interest share of income	28,755	21,925
Sale of investments	175,545	6,790
	<u>869,566</u>	<u>2,716,505</u>
APPLICATION OF FUNDS:		
Purchase of equipment, net	109,454	27,994
Exploration and development	469,330	544,550
	<u>578,784</u>	<u>572,544</u>
Increase in working capital	290,782	2,143,961
Working capital January 1st	3,640,098	147,996
WORKING CAPITAL JUNE 30	<u>\$3,930,880</u>	<u>\$2,291,957</u>

TO THE SHAREHOLDERS:

Numac continued to realize appreciable gains during the first six months of 1969. Income from oil properties increased substantially and a healthy working capital position was maintained. Details are shown in the financial section of this report, but the following will highlight on a comparative basis the results for the period.

	1st Half 1969	1st Half 1968
Income from operations	\$1,030,017	\$ 332,827
Net income	\$ 326,077	\$ 128,025
Operating cash flow	\$ 567,066	\$ 238,126
Working capital as of June 30	\$3,930,880	\$2,291,957
Net barrels produced	182,660	114,213

The Company held interests in 2,110,658 acres of oil, gas and mineral properties on June 30th.

Numac participated in 7 test wells during the six month period, four of which were completed as oil wells, one was capped as a potential gas well, while two were abandoned. Two Granite Wash wells were drilled in the Red Earth area and one in the Utikuma area. The fourth oil success was a D3 reef discovery well in the Nevis area drilled under a farmout agreement. All 4 wells are on steady production. The gas well is located on a Petroleum and Natural Gas reservation in the Wabasca area north of Marten Hills and is capped pending market availability. One dry hole was an exploratory venture in the Red Earth area while the other was drilled free to Numac and associates under a farmout agreement in the Leader area of Saskatchewan. Extensive seismic has been done on the latter acreage by the farmee and it has an option to do further drilling to earn. Present summer and fall plans include the drilling of 3 or 4 wells in the Red Earth area, 1 or 2 in the Utikuma area, and it is anticipated the Company will participate in 2 deep reef tests in the Grande Prairie (Gold Creek) and Strachan-Phoenix areas.

Numac recently increased its acreage holdings in the gas prone Grande Prairie (Gold Creek) area through acquisition of a 5% working interest in a 12,480 acre drilling reservation. This acreage surrounds most of 12,479 acres of Petroleum and Natural Gas leases in which the Company has retained a 20% net profits interest under a farmout arrangement. It is anticipated a D3 reef test (approximately 13,000 feet) will be drilled later this year on these properties which are located in western Alberta's deep basin.

In the Strachan-Phoenix area, northwest of Calgary, Numac holds varied interests which cannot be disclosed at the present time. These holdings are on trend northwest of the prolific Strachan and Ricinus areas where substantial wet gas and oil discoveries have been made in the D3 reef and Cardium formations, respectively. Present indications are that a D3 reef test will be drilled on these lands this fall. On the same trend, southeast of the Ricinus-Strachan discovery areas, Numac retains a one-third working interest in 1,600 acres of Petroleum and Natural Gas leases in the Bergen (Bearberry) area. This acreage is surrounded by high priced Crown acreage purchased at recent sales and it is expected exploratory and drilling activity will be intense.

Summer exploration programs are under way on the Company's mineral properties in the Northwest Territories and northwestern Saskatchewan. The Northwest Territories holdings totalling 61,759 acres are located in the Caribou Lake-Hanbury River area where nickel has been detected and in the Bode Lake area where copper shows are being examined. Of the 1,099,740 acres held in northwestern Saskatchewan, 825,864 acres are in the Carswell Lake and Wollaston Lake areas (749,000 acres in Wollaston Lake are strategically located in relation to the Gulf Minerals uranium discovery). Airborne scintillometer, electromagnetic and geochemical surveys are nearing completion and ground crews are examining anomalies that have been delineated.

In the Mackenzie Delta area it is understood several exploratory wells are being planned by major companies for commencement this winter and during 1970. Announcement of these well locations will be of interest to Numac shareholders because of the Company's 20% carried interest in 270,242 acres located in the mouth of the Delta.

President

CONSOLIDATED STATEMENT OF INCOME AND

RETAINED EARNINGS

FOR THE SIX MONTHS ENDED JUNE 30, 1969

(with comparative figures for 1968)

INCOME	1969	1968
Income from operations	\$1,030,017	\$ 332,827
Investment income	138,136	4,765
Supervision and sundry	30,915	8,492
	1,199,068	346,084

EXPENSES		
Operating, general and administrative	587,870	86,033
Interest	17,174	—
Depletion	137,200	99,000
Depreciation	101,992	11,101
Minority interest	28,755	21,925
	872,991	218,059

NET INCOME	326,077	128,025
Retained earnings January 1st	989,982	636,235

RETAINED EARNINGS JUNE 30	\$1,316,059	\$ 764,260
---------------------------	-------------	------------

OPERATING CASH FLOW	\$ 567,066	\$ 238,126
---------------------	------------	------------

NOTE:

The financial statements are prepared on a comparative basis using the full-cost method of accounting. Although this method of accounting was effectively adopted January 1, 1968, the net income of \$292,018 previously reported for the six months ended June 30, 1968 was based upon the former accounting method.

Edmonton, Alberta
July 22, 1969

AR18

*Financial
Report
to
Shareholders*

NINE MONTHS ENDED

SEPTEMBER 30, 1969

NUMAC OIL & GAS LTD.

[Signature]
NUMAC OIL & GAS LTD.

**CONSOLIDATED STATEMENT OF INCOME AND
RETAINED EARNINGS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1969**

(with comparative figures for 1968)

	1969	1968
INCOME:		
Income from operations -	\$ 1,488,938	\$ 555,603
Investment income -----	209,922	43,265
Supervision and sundry -	57,580	45,750
	<u>1,756,440</u>	<u>644,618</u>
EXPENSES:		
Operating, general and administrative -----	841,788	127,924
Interest -----	29,710	—
Depletion -----	212,000	156,000
Depreciation -----	158,547	54,960
Minority interest -----	42,806	39,432
	<u>1,284,851</u>	<u>378,316</u>
NET INCOME -----	<u>471,589</u>	<u>266,302</u>
Retained earnings, January 1st -----	989,982	636,235
RETAINED EARNINGS SEPTEMBER 30th -----	<u><u>1,461,571</u></u>	<u><u>902,537</u></u>
OPERATING CASH FLOW --	<u><u>\$ 842,136</u></u>	<u><u>\$ 477,262</u></u>

NOTE:

The financial statements are prepared on a comparative basis using the full-cost method of accounting. Although this method of accounting was effectively adopted January 1, 1968, the net income of \$453,151 previously reported for the nine months ended September 30, 1968 was based upon the former accounting method.

**CONSOLIDATED STATEMENT OF SOURCE AND
APPLICATION OF FUNDS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1969**

(with comparative figures for 1968)

	1969	1968
SOURCE OF FUNDS:		
Net income before non- cash items -----	\$ 842,136	\$ 477,262
Proceeds from issue of shares -----	3,200	2,139,920
Proceeds from sale of interest in rights and leases -----	95,000	339,491
Minority interest share of income -----	42,806	39,432
Sale of investments -----	187,842	6,790
	<u>1,170,984</u>	<u>3,002,895</u>
APPLICATION OF FUNDS:		
Purchase of equipment --	141,263	192,996
Exploration, development and land acquisition --	794,473	889,353
Payment on long-term debt	60,000	—
	<u>995,736</u>	<u>1,082,349</u>
 Increase in working capital -	175,248	1,920,546
Working capital January 1st	3,640,098	147,996
WORKING CAPITAL SEPTEMBER 30th -----	<u><u>\$ 3,815,346</u></u>	<u><u>\$ 2,068,542</u></u>

W. S. McGregor

President

NUMAC OIL & GAS LTD

SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969

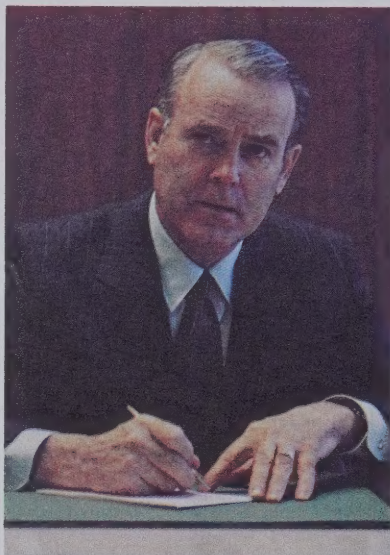


FINANCIAL AND OPERATING HIGHLIGHTS

	<u>1969</u>	<u>1968</u>	<u>1967</u>
Gross Income	\$2,421,679	\$1,386,325	\$653,135
Net Cash Flow from Operations	\$1,220,286	\$ 805,510	\$432,954
*Per share	.29	.23	.14
Net Income before extraordinary items	\$ 725,040	\$ 504,297	\$240,210
*Per share	.17	.14	.07
Net Income	\$ 803,800	\$ 474,781	\$240,210
*Per share	.19	.13	.07
Working Capital	\$3,816,730	\$3,640,098	\$147,996
Net Annual Oil Production after royalties (barrels)	387,499	277,191	189,407
Land Holdings:			
Gross Acres	1,427,533	2,514,639	1,597,111
Net Acres	422,655	1,160,115	1,121,752

*Based on weighted average of outstanding shares.

REPORT OF THE DIRECTORS



TO THE SHAREHOLDERS

During 1969 your Company again achieved new operating and financial records; gross income was up 75% to \$2,421,679, net income of \$803,800 up 69%, cash flow increased 51% to \$1,220,286 and net oil production averaged in excess of 1,000 barrels per day, an increase of 40% over 1968. The Company's year end working capital was \$3,816,730 and long term debt \$180,000.

In 1969 your Company participated in 14 wells of which 8 were successful. In 1970 the Company will participate in several exploratory and development wells including at least two deep tests in Alberta's foothills country in search for gas. One of these tests will be drilled on trend northwest of Strachan-Ricinus and the other west of Gold Creek, both of which are prolific gas producing areas.

Numac and associates presently have a seismic and drilling program under way in northern Saskatchewan's uranium-prone area. This drilling program was planned to test interesting uranium occurrences discovered in 1969 and will continue until spring breakup. During the year in review Numac also continued a syndicated base metals exploration program in the Northwest Territories and this will be expanded in 1970.

The oil discovery in the Mackenzie Delta by Imperial Oil Enterprise Ltd. has been the most significant event in recent months since Numac has a 20% carried interest in eight permits totalling 270,242 acres in the vicinity of the discovery. This area is considered to have great potential and exploratory wells will be drilled near by and on your Company's permits (see centre map).

The future of the oil and gas business for Western Canada looks extremely promising and Numac's management expects another outstanding year in 1970.

The directors would like to acknowledge the support of our employees and dedication of management staff without which the growth of your Company reported herein would not have been achieved.

On behalf of the Board of Directors,

W. S. McGREGOR
President

Edmonton, Alberta
March 13, 1970

NUMAC OIL & GAS LTD SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969

SIGNIFICANT AREAS OF EXPLORATION ACTIVITY



FINANCIAL REVIEW

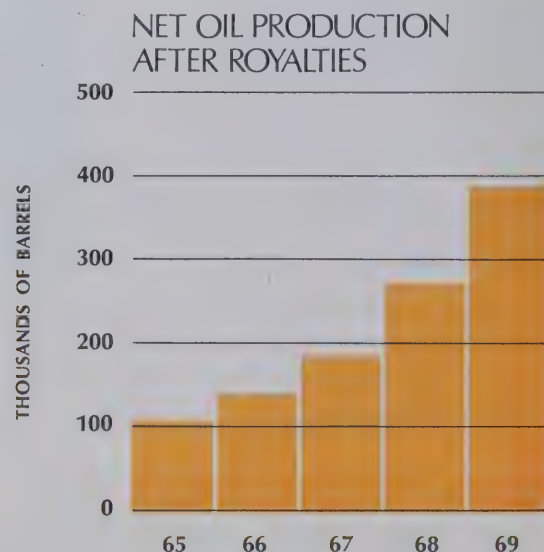
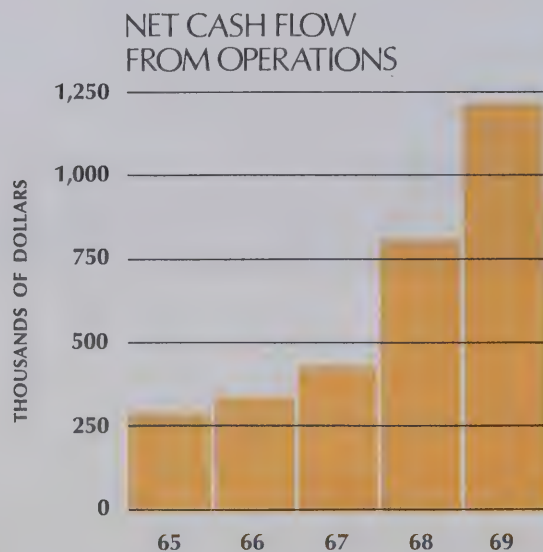
Numac continued to maintain a substantial financial growth in 1969. Consolidated net income before extraordinary items of \$725,040, net income of \$803,800 and cash flow from operations of \$1,220,286 represent gains of 44%, 69% and 51% respectively.

Gross income of \$2,421,679 up from \$1,386,325 in 1968, primarily resulted from a 40% growth in net oil production, a substantial increase in investment revenue and oilfield construction income for a full twelve months versus four months in 1968. The large increase in operating expense and depreciation is primarily attributable to the oilfield construction operation.

Non-recurring income of \$78,760 is the result of the farmout of a mining project whereby the proceeds were in excess of the total costs incurred. The 1968 non-recurring item of \$29,516 represents a write down of investments which was previously reported as an extraneous retained earnings adjustment, but has been reclassified in the financial statements to conform with the recommendation of the Canadian Institute of Chartered Accountants that commencing January, 1969, such an amount should be disclosed as an extraordinary item in the Statement of Income.

Working capital increased \$176,632 to \$3,816,730 at December 31, 1969. This favorable liquid position was maintained during a period when capital expenditures totalled \$1,367,452.

In conformity with general practice of the oil and gas industry in North America, the Company continued the policy of not providing for deferred income taxes as a result of claiming drilling, exploration and lease acquisition costs for income tax purposes in excess of related amounts charged in the accounts.



NUMAC OIL & GAS LTD SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969

PRODUCTION

A substantial increase in net annual oil production after royalties was once again attained. The net oil production during 1969 was 387,499 barrels, a 40% increase over net production for 1968. This increase is attributable to new wells drilled, increased allowables due to secondary recovery schemes and to a general increase in overall Provincial production allowables which are related to market demand.

With the present high market demand for Canadian crude, it is indicated that a further significant increase in Numac net production can be expected during 1970.

Since prorationing in Alberta is now based on reserves, Numac's continuing policy will be to endeavor to acquire lands which are estimated to have higher reserve potential for oil and/or natural gas. The benefits from such policy have already been evidenced by the increased allowables that accrued to Numac's production interests in higher reserve fields, such as Red Earth, Utikuma, Swan Hills, Nipisi, Mitsue and Snipe Lake, since the new method of prorationing came into effect.

Numac Battery No. 1—Red Earth



OIL AND GAS EXPLORATION AND DEVELOPMENT

Fourteen wells were drilled on Numac lands during 1969. Six were completed as oil wells, two as gas wells, while six failed to produce in commercial quantities.

Five wells were drilled in the RED EARTH area, two under farmout arrangements at no cost to Numac and three on a regular participation basis. Two of these tests were abandoned and three were completed as Granite Wash oil wells, making a total of fifteen oil wells on steady production. Red Earth, therefore, continues to be a significant factor in Numac's operations.

A Granite Wash oil well was drilled in the UTIKUMA LAKE area, bringing Numac's producing well interests in the Utikuma Lake-North Nipisi area to five. Other oil wells drilled by the Company included a D3 reef discovery in the NEVIS area and a Keg River well in the ZAMA area where Numac now has interests in six producers. A potential gas well was drilled and suspended in the Wabisca area while a well at Coutts was capped as a potential gas producer. The four other test wells in which Numac participated included three at Coutts and one in the Whitelaw-Peace River area.

Having in mind the rapidly increasing demand for natural gas, the Company accumulated promising acreage positions in two main areas along the gas-prone foothills front of western Alberta. On trend northwest of the prolific STRACHAN-RICINUS wet gas fields, Numac holds, with a major company, varied interests in 23,680 acres on which a deep test is planned for this coming year. On the same trend southeast of those fields, the Company holds interests in 1,600 acres of leases. This acreage is surrounded by high priced Crown acreage on which several deep tests are expected to be drilled. In the GRANDE PRAIRIE-GOLD CREEK area Numac holds a 20% net profits interest in 12,479 lease acres and a 5% participating interest in a 12,480 acre drilling reservation. Drilling activity is also scheduled for this acreage.

The Company's wholly-owned 40,640 acre LUBICON LAKE reservation has been farmed out to a major company. A cash consideration was received and the farmee is required to carry out a seismic program plus drill a Precambrian test well in order to earn a one-half interest.

During the latter part of the year Numac acquired a one-third interest in a 651 acre lease in the HELMET area of northeastern British Columbia. This acreage is offset by two Slave Point gas wells. The Company intends to continue its acquisition and exploration program in northeastern British Columbia.

NUMAC OIL & GAS LTD SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969



Numac's Technical Staff

Drilling at Red Earth



MACKENZIE DELTA, NORTHWEST TERRITORIES (see centre map)

As a result of Imperial Oil's Atkinson H-25 oil discovery, exploration activities in the Mackenzie Delta have been significantly stepped up. Several seismic crews and drilling rigs are now working in the area. Imperial Oil has announced it has flown a third drilling rig into the area with immediate plans to drill northeast of Atkinson Point. It also reported that another exploratory well will be drilled on Ellice Island as well as a step out test near the Atkinson H-25 discovery. Gulf Oil Canada Limited has announced plans to drill at least three wells on its block south of the Bow Valley-Numac acreage, two of which they indicate will be drilled this winter.

Numac has a 20% net carried interest in 270,242 acres of permits in the Mackenzie Delta. The operator of this property must supply 100% of the exploration, development and operating costs, and upon recovery thereof (excluding interest charges), Numac will

Burning gas seep off Garry Island



Oliver Islands in the Mackenzie Delta



NUMAC OIL & GAS LTD SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969

receive 20% of all production. As can be seen on the map, Numac's lands are strategically located in relation to Imperial Oil's acreage in the heart of the Mackenzie Delta. During the summer of 1969 a preliminary marine seismic program was carried out on this joint interest acreage. Following up that program and in the light of the Atkinson discovery, it is anticipated further detailed seismic work will be carried out prior to drilling.

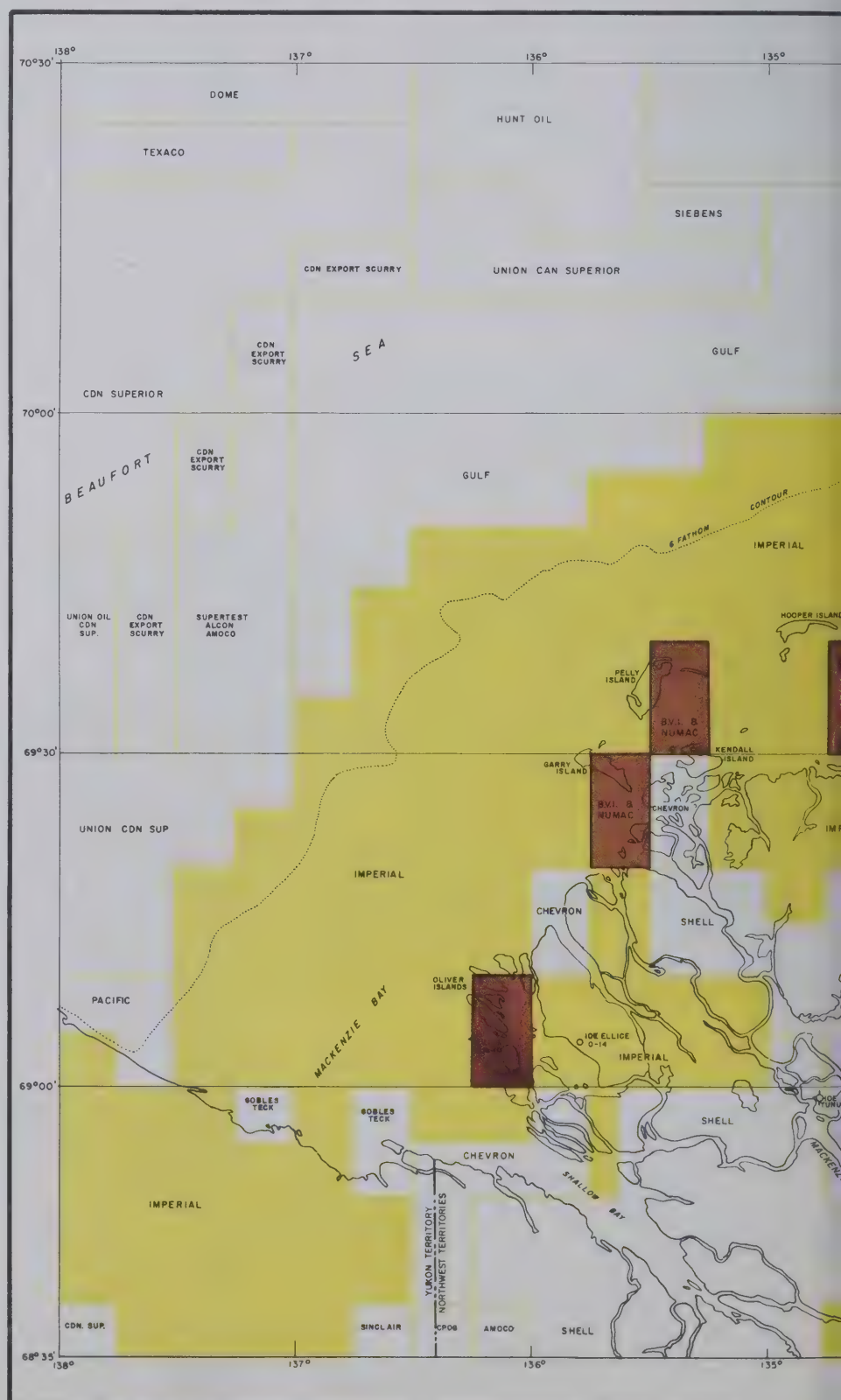
Because of the potential reserves in the Mackenzie Delta basin, this area will be the scene of fevered exploratory and drilling activity for the next several months and probably years. It is also known that intensive surveys are under way to determine logistic requirements for a pipeline to carry crude from the area in the event oil is found in sufficient quantities.

Barge carrying oilwell drilling equipment in the Mackenzie Delta



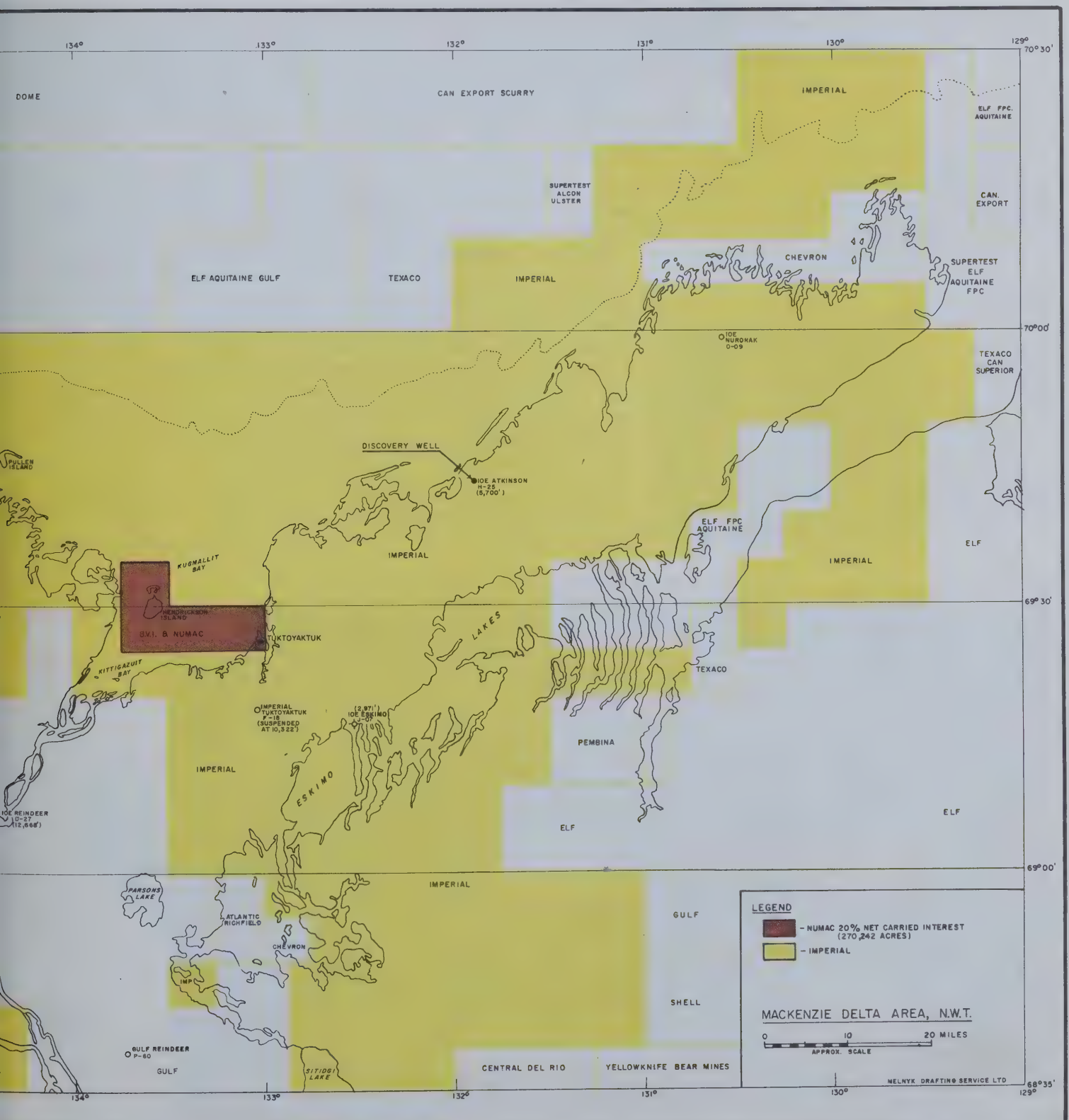
(courtesy of Northern Transportation Co. Ltd.)

NUMAC - BVI ACREAGE IN RELATION TO DRILLING ACTIVITY IN THE MACKENZIE DELTA



NUMAC OIL & GAS LTD SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969



MINERAL EXPLORATION

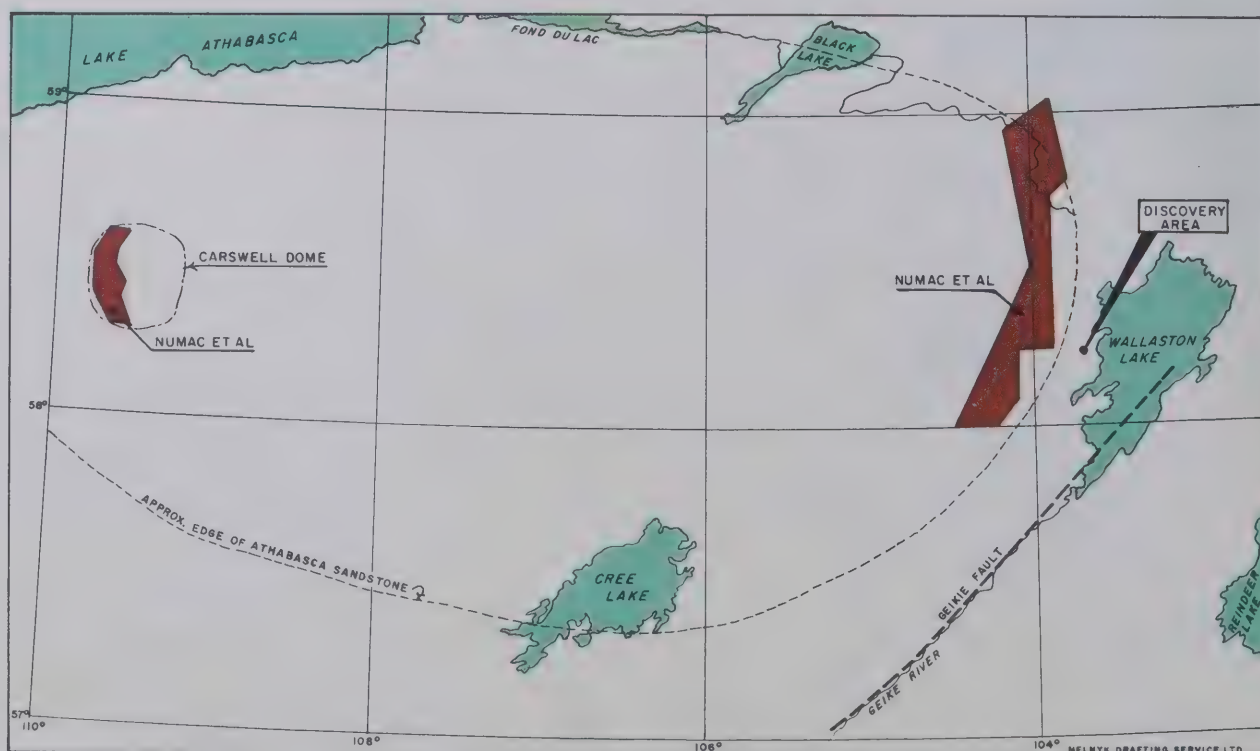
Northern Saskatchewan (see map)

Numac continued a full scale program on its uranium properties during 1969. Most of the work was done on its WOLLASTON LAKE mineral permits and on the CARSWELL DOME claim blocks. The program, which was designed to assess ground acquired in 1968, included airborne scintillometer, electromagnetic and magnetic surveys, hydrogeochemical surveys, and geological mapping.

The work turned up a number of significant uranium occurrences which prompted Numac and associates to launch a concerted geophysical and diamond drilling program this winter on the Wollaston Lake permits west of the Gulf Minerals uranium discovery and on the Carswell claim blocks. Presently geophysical surveys are well under way and two diamond drill rigs are on location to carry out the drilling program. Under a farmout agreement on these properties, the farmee paid Numac a cash consideration and agreed to carry the Company through all costs of exploration, mining and development for 80% of Numac's 50% interest. When the farmee has recovered such costs out of its share of proceeds from mineral substances sold, the farmee and Numac will each beneficially hold a 25% interest.

During 1969 additional work was done on several of the KISIWAK properties, and upon assessment of the results, a decision will be made as to further participation. A 480 acre mining lease was taken

Seismic operation at Wollaston Lake



NUMAC OIL & GAS LTD

SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969

out on the Mozzie Lake prospect in the Charlebois Lake area to secure the estimated 204,000 tons of $0.12 \text{ U}_3\text{O}_8$ delineated last year. This property will be held at a minimum annual rental cost pending further development in the general area.

Northwest Territories

Numac and associates participated during 1969 in an active exploration and acquisition program in the Northwest Territories. A sizeable copper prospect was delineated in the BODE LAKE area, 200 miles northwest of Yellowknife. Five diamond drill holes totalling 1,747 feet were drilled over a wide area and the results precipitated plans for a further work program in 1970.

In the HANBURY RIVER area, 60 miles southeast of Yellowknife, where there have been nickle shows, 254 claims have been retained under an agreement with a major mining company. This company carried out an exploration program on the properties during 1969 and further work is anticipated. Towards the end of the year Numac participated in the acquisition of 26 claims on OUTPOST ISLAND which lie in the entrance to the east arm of Great Slave Lake. This property is particularly promising because of its tungsten occurrences.

Leads in other areas of the Northwest Territories are being followed up and plans are now being laid for an aggressive exploration program during the 1970 field season.

Freighting equipment across Lake Athabasca

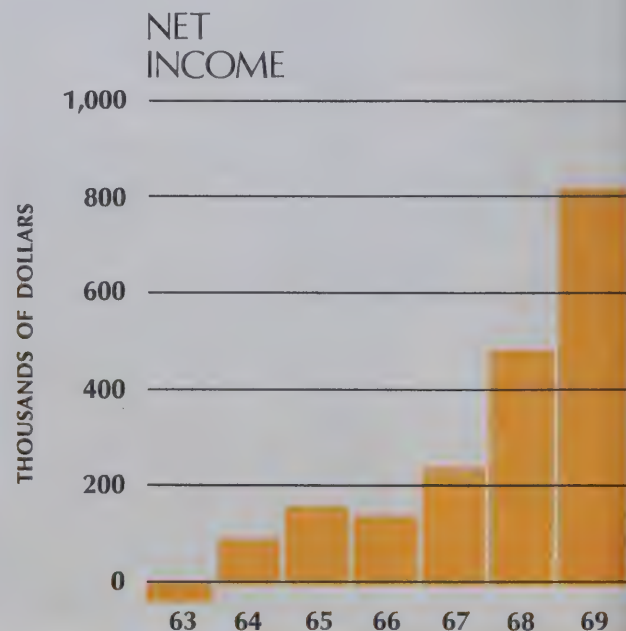
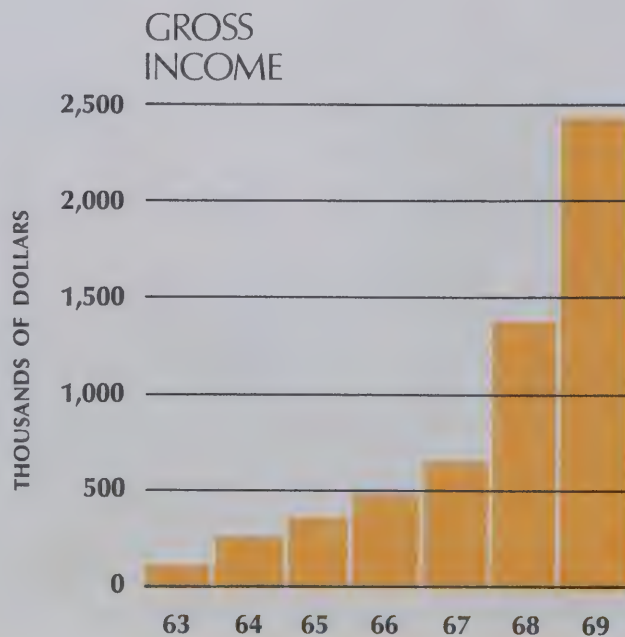


SEVEN YEAR STATISTICAL SUMMARY

(Note)

Gross Revenue, net after royalties	1969 \$ 2,421,679
Operating Expenses	\$ 932,427
General and Administrative Expenses	\$ 158,404
Net Cash Flow from Operations	\$ 1,220,286
Net Income	\$ 803,800
Working Capital	\$ 3,816,730
Property, Exploration and Development Expenditures	\$ 1,170,251
Shareholders' Equity	\$11,074,311
Number of Shares Outstanding	4,179,566
Net Annual Oil Production, after royalties (barrels)	387,499
Land Holdings	
Gross Acres	1,427,533
Net Acres	422,655

NOTE: The above Statistical Summary includes the operations of Numac Oil & Gas Ltd. from 1963 to 1969. It also reflects retroactive adjustments due to the adoption of the full-cost method of accounting for oil and gas properties in 1969.



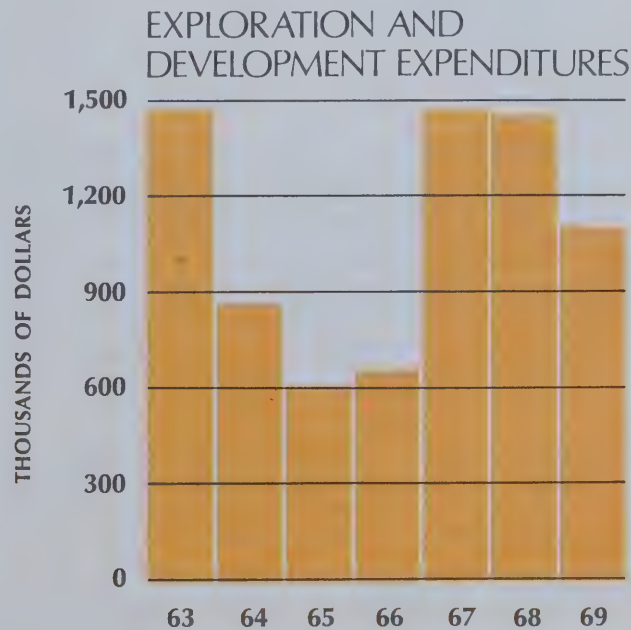
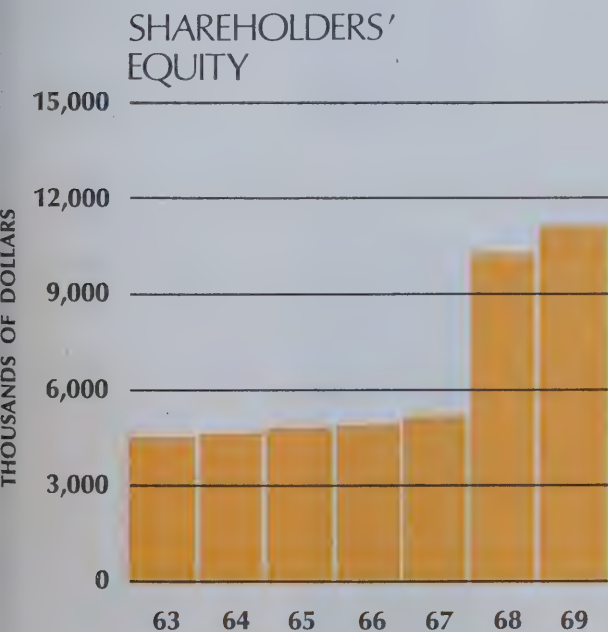
NUMAC OIL & GAS LTD

SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969

1968	1967	1966	1965	1964	1963
1,386,325	653,135	485,741	353,488	281,352	104,154
385,789	93,146	57,254	34,611	38,221	6,908
112,670	82,876	60,946	46,928	49,837	31,143
805,510	432,954	340,074	288,200	190,476	66,103
474,781	240,210	143,612	157,132	99,682	(4,401)
3,640,098	147,996	1,241,553	1,778,017	2,133,439	2,977,393
1,468,856	1,480,293	655,182	600,286	861,881	1,483,791
0,275,499	5,217,706	4,945,225	4,801,613	4,644,481	4,544,799
4,177,566	3,209,925	3,200,000	3,200,000	3,200,000	3,200,000
277,191	189,407	142,533	108,316	70,360	11,861
2,514,639	1,597,111	1,365,155	921,100	490,944	397,431
1,160,115	1,121,752	1,052,521	735,470	327,125	151,900

of incorporation, March 13th, 1963, and its subsidiary companies from date of acquisition.
Accounting effective January 1st, 1968.



CONSOLIDATED STATEMENT OF INCOME

Years ended December 31, 1969 and 1968

INCOME

	1969	1968
Crude oil and gas sales, less royalties	\$1,098,845	\$ 813,705
Oilfield construction income	957,106	411,859
Investment income	289,428	93,932
Supervision and sundry	76,300	66,829
	<u>2,421,679</u>	<u>1,386,325</u>

EXPENSES

Operating expense	932,427	385,789
General and administrative expense	158,404	112,670
Interest expense	48,227	32,324
Minority interest	62,335	50,032
	<u>1,201,393</u>	<u>580,815</u>

NET FUNDS FROM OPERATIONS

	<u>1,220,286</u>	<u>805,510</u>
Provision for depletion	279,281	208,338
Provision for depreciation	215,965	92,875
	<u>495,246</u>	<u>301,213</u>

NET INCOME BEFORE EXTRAORDINARY ITEMS

	725,040	504,297
Non-recurring income (Note 6)	78,760	(29,516)

NET INCOME (Note 2)

\$ 803,800	\$ 474,781
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CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31, 1969 and 1968

RETAINED EARNINGS, beginning of year

Add—

Net income

Deduct—

Write-off of incorporation costs, goodwill and
commission on sale of shares

RETAINED EARNINGS, end of year

1969	1968
\$ 989,982	\$ 636,235
803,800	474,781
<u>1,793,782</u>	<u>1,111,016</u>
8,188	121,034
<u>\$1,785,594</u>	<u>\$ 989,982</u>

The accompanying notes are an integral part of the financial statements.

NUMAC OIL & GAS LTD

SEVENTH ANNUAL REPORT

For The Year Ending December Thirty-First, 1969

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Years Ended December 31, 1969 and 1968

SOURCE OF FUNDS

	1969	1968
Income	\$2,421,679	\$1,386,325
Less: Operating, general and administrative, interest and minority interest	1,201,393	580,815
Net funds from operations	1,220,286	805,510
Issuance of capital stock	3,200	4,652,111
Sale of interest in rights and leases	186,261	363,970
Sale of investments	202,809	—
Increase in long term debt	—	300,000
	<u>1,612,556</u>	<u>6,121,591</u>

APPLICATION OF FUNDS

Property, exploration and development	1,170,251	1,468,856
Purchase of equipment, net	197,201	846,378
Decrease in minority interest	8,472	33,699
Repayment of long term debt	60,000	60,000
Purchase of investments	—	220,556
	<u>1,435,924</u>	<u>2,629,489</u>

INCREASE IN WORKING CAPITAL	176,632	3,492,102
Working capital, beginning of year	3,640,098	147,996
WORKING CAPITAL, end of year	<u>\$3,816,730</u>	<u>\$3,640,098</u>

The accompanying notes are an integral part of the financial statements.

AUDITORS' REPORT

To the Shareholders of
Numac Oil & Gas Ltd.

We have examined the consolidated balance sheet of Numac Oil & Gas Ltd. and subsidiary companies as at December 31, 1969 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 27, 1970

WINSPEAR, HIGGINS, STEVENSON AND DOANE
Chartered Accountants

CONSOLIDATED BALANCE SHEET

ASSETS

	1969	1968
CURRENT ASSETS		
Cash	\$ 79,876	\$ 92,594
Short term investments, at cost which approximates market	3,854,611	3,797,999
Accounts receivable	744,339	792,007
Inventory of materials and supplies, at cost	26,986	50,822
Prepaid expenses	25,603	18,154
	<u>4,731,415</u>	<u>4,751,576</u>
INVESTMENTS, at cost less write-down of \$29,516, no quoted market value	148,060	354,565
FIXED ASSETS, at cost:		
Lands, leases and well costs	7,171,745	6,116,390
Production and other equipment	1,453,347	1,257,983
	<u>8,625,092</u>	<u>7,374,373</u>
Less—		
Accumulated depletion	1,081,860	802,579
Accumulated depreciation	379,264	168,039
	<u>1,461,124</u>	<u>970,618</u>
	<u>7,163,968</u>	<u>6,403,755</u>
UNALLOCATED COSTS ON CONSOLIDATION (Note 1) ..	148,400	148,400
	<u>\$12,191,843</u>	<u>\$11,658,296</u>

The accompanying notes are an integral part of the financial statements.

OIL & GAS LTD. COMPANIES

DECEMBER 31, 1969 AND 1968

LIABILITIES

CURRENT LIABILITIES

Bank loan, demand	\$ 450,000	\$ 450,000
Accounts payable and accruals	404,685	601,478
Long term debt due within one year	60,000	60,000

914,685	1,111,478
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LONG TERM DEBT	180,000	240,000
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MINORITY INTEREST IN SUBSIDIARY COMPANY	22,847	31,319
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1,117,532	1,382,797
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SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 3)

Authorized—

5,000,000 shares without nominal or par value

Issued—

4,179,566 shares

(4,177,566 shares—1968)	9,288,717	9,285,517
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RETAINED EARNINGS	1,785,594	989,982
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11,074,311	10,275,499
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\$12,191,843	\$11,658,296
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ON BEHALF OF THE BOARD

Director

W. S. Mc Gregor

Director

A. H. MacLean

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—ACCOUNTING PRINCIPLES

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The excess of the cost of shares of subsidiaries over their net book value has been allocated, except where not practicable, to the appropriate assets and amortized on the straight-line basis over five years.

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, and overhead directly associated with exploration and development. These costs are depleted on the composite unit-of-production method based on estimated proven developed reserves of oil and gas. Depreciation of equipment is provided for on the straight-line basis at rates which amortize the cost over their estimated useful life.

All acquisition and exploration costs of mining properties are treated on a project basis wherein costs are not charged to expense unless the whole project is abandoned. Revenue from farm-out arrangements is not taken into income unless the proceeds exceed the total project cost in which case the excess is recorded as non-recurring income.

NOTE 2—INCOME TAXES

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowance (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in their accounts. As a result of claiming excess drilling, exploration and lease acquisition costs, no income taxes are payable for the year. Expenditures remain to be carried forward and applied against future taxable income in the amount of \$4,965,000 (drilling, exploration and lease acquisition costs \$4,415,000; undepreciated capital cost \$550,000).

The companies do not believe that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs. While this view conforms with general practice in the oil and gas industry, and is accepted by accounting authorities in the United States, it differs from the tax allocation basis of accounting recommended by the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants under which the income tax provision is based on the income reported in the accounts. If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of \$240,000 (\$189,000 in 1968) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$559,000 at December 31, 1969.

NOTE 3—SHARE CAPITAL

During the year an employee exercised his option under an employee stock option plan dated January 2, 1964, to purchase 2,000 shares of the capital stock of the Company at \$1.60 per share.

As at December 31, 1969, 67,500 shares of the capital stock of the Company were reserved for option to senior officers and key employees at prices ranging from \$5.00 to \$6.48 per share. These options are exercisable cumulatively as to one-fifth per year of the total number granted commencing one year after date of option, and all expire on or before November 10, 1974.

NOTE 4—OUTSTANDING LITIGATION

A decision was rendered in the Supreme Court of British Columbia on August 5, 1968 in favour of a consolidated subsidiary and another company in their action against two other oil and gas companies. The amount of the judgement is estimated to be substantial but has not yet been finally determined and therefore no provision for recovery has been made in the accounts.

NOTE 5—REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

In accordance with the provisions of the Companies Act (Alberta), it is reported that the remuneration paid to the senior officers of the Company and its subsidiaries amounted to \$102,539 (1968—\$88,085) and Directors' fees amounted to \$1,441 (1968—\$1,548).

NOTE 6—NON-RECURRING INCOME

During the year, the Company farmed out a mineral property for a cash consideration plus certain expenditure commitments. In compliance with the Company's policy of treating proceeds from mineral farm-out arrangements (as referred to in Note 1) the excess of the proceeds over cost of \$78,760 was treated as non-recurring income.

The 1968 non-recurring item of \$29,516 represents a write-down of investments which was reported in the financial statements of that year as an extraneous retained earnings adjustment. The Canadian Institute of Chartered Accountants has recommended that commencing January, 1969, such an amount should be disclosed as an extraordinary item in the Statement of Income, accordingly the 1968 comparable figure has been adjusted to give retroactive effect to this recommendation.

